

**CITY OF ARNOLDS PARK  
INDEPENDENT AUDITORS' REPORTS  
PRIMARY GOVERNMENT  
BASIC FINANCIAL STATEMENTS,  
SUPPLEMENTARY INFORMATION,  
AND SCHEDULE OF FINDINGS  
JUNE 30, 2012**

# CITY OF ARNOLDS PARK

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## CITY OF ARNOLDS PARK

### CITY OFFICIALS

(Before January 2012)

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Mike Mitchell	Mayor	December 31, 2011
Mike Koppert	Mayor Pro-Tem	December 31, 2013
Mitchell Watters	Council Member	December 31, 2013
Jason Christensen	Council Member	December 31, 2011
James D. Jensen	Council Member	December 31, 2011
John Adams	Council Member	December 31, 2011
Ron Walker	Clerk Administrator	December 31, 2011
Kevin Sander	City Attorney	December 31, 2011

(After January 1, 2012)

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Mike Mitchell	Mayor	December 31, 2013
Mike Koppert	Mayor Pro-Tem	December 31, 2013
Mitchell Watters	Council Member	December 31, 2013
Jason Christensen	Council Member	December 31, 2015
James D. Jensen	Council Member	December 31, 2015
John Adams	Council Member	December 31, 2015
Ron Walker	Clerk Administrator	December 31, 2012
Kevin Sander	City Attorney	December 31, 2012

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## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and  
Members of the City Council  
City of Arnolds Park  
Arnolds Park, IA 51331

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of the primary government of the City of Arnolds Park, Iowa, (City) as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The financial statements do not include financial data for the City's legally separate component units. Accounting principles generally accepted in the United States of America require the financial data for the component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the assets, liabilities, net assets, revenues, and expenses of the component units required to be discretely presented totaling \$8,331,159, \$1,248,986, \$7,082,173, \$502,210, and \$543,087, respectively, have not been reported.

In our opinion, because of the omission of the discretely presented component units, as discussed above, the financial statements referred to above do not present fairly, in conformity

with accounting principles generally accepted in the United States of America, the financial position of the discretely presented component units of the City of Arnolds Park, Iowa, as of June 30, 2012, or the changes in financial position thereof for the year then ended.

Further, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, and each major fund of the primary government of the City of Arnolds Park at June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2013 on our consideration of the City of Arnolds Park's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the City's primary government. The financial statements for the three years ended June 30, 2005 (not presented herein) were previously audited, in accordance with the standards referred to in the second paragraph of this report, by other auditors who expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the primary government financial statements for the six years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. The supplementary information included in Schedules 1 through 4 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The budgetary comparison information on pages 17 through 19 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*Wintner, Starn & Co., LLP*

January 8, 2013

## **BASIC FINANCIAL STATEMENTS**

CITY OF ARNOLDS PARK  
STATEMENT OF ACTIVITIES AND NET ASSETS-CASH BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

		<u>Program Receipts</u>		
	<u>Disbursements</u>	<u>Charges for Service</u>	<u>Operating Grants, Contributions, and Restricted Interest</u>	<u>Capital Grants, Contributions, and Restricted Interest</u>
FUNCTIONS/PROGRAMS:				
Governmental activities:				
Public safety .....	\$ 586,031	\$ 37,086	\$ -	\$ -
Public works .....	432,711	204,881	106,802	-
Culture and recreation .....	161,668	50,907	23,538	-
Community and economic development.	140,392	-	-	-
General government .....	456,414	-	-	-
Debt service .....	4,555,150	-	-	-
Capital projects .....	4,385,391	-	-	1,573,376
Total governmental activities	<u>10,717,757</u>	<u>292,874</u>	<u>130,340</u>	<u>1,573,376</u>
Business-type activities:				
Water .....	300,944	455,052	-	-
Sewer .....	210,427	215,043	-	-
Total business-type activities	<u>511,371</u>	<u>670,095</u>	<u>-</u>	<u>-</u>
TOTAL	<u>\$ 11,229,128</u>	<u>\$ 962,969</u>	<u>\$ 130,340</u>	<u>\$ 1,573,376</u>

General Receipts:

Property tax levied for:	
General purposes .....	
Tax increment financing collections .....	
Local option sales tax .....	
Hotel/motel tax .....	
Other city tax .....	
Unrestricted interest on investments .....	
Bond proceeds.....	
Miscellaneous .....	
Transfers .....	
Total general receipts and transfers	

Change in cash basis net assets

Cash basis net assets - beginning of year

Cash basis net assets - end of year

Cash basis net assets

Restricted, expendable:

Streets

Urban renewal purposes

Debt service

Capital projects

Unrestricted

Total cash basis net assets

See Notes to Financial Statements

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business-type Activities	Total
\$ (548,945)	\$ -	\$ (548,945)
(121,028)	-	(121,028)
(87,223)	-	(87,223)
(140,392)	-	(140,392)
(456,414)	-	(456,414)
(4,555,150)	-	(4,555,150)
(2,812,015)	-	(2,812,015)
<u>(8,721,167)</u>	<u>-</u>	<u>(8,721,167)</u>
-	154,108	154,108
-	4,616	4,616
<u>-</u>	<u>158,724</u>	<u>158,724</u>
<u>(8,721,167)</u>	<u>158,724</u>	<u>(8,562,443)</u>
1,000,620	-	1,000,620
759,247	-	759,247
231,464	-	231,464
296,541	-	296,541
23,593	-	23,593
12,506	-	12,506
4,844,029	-	4,844,029
138,142	-	138,142
120,000	(120,000)	-
<u>7,426,142</u>	<u>(120,000)</u>	<u>7,306,142</u>
(1,295,025)	38,724	(1,256,301)
<u>2,314,409</u>	<u>97,589</u>	<u>2,411,998</u>
<u>\$ 1,019,384</u>	<u>\$ 136,313</u>	<u>\$ 1,155,697</u>
\$ 51,666	\$ -	\$ 51,666
33,069	-	33,069
83,886	-	83,886
78,633	-	78,633
<u>772,130</u>	<u>136,313</u>	<u>908,443</u>
<u>\$ 1,019,384</u>	<u>\$ 136,313</u>	<u>\$ 1,155,697</u>

CITY OF ARNOLDS PARK  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30,2012

		Special Revenue	
	General	Road Use Tax	Urban Renewal Tax Increment
RECEIPTS:			
Property tax .....	\$ 893,070	\$ -	\$ -
Tax increment financing collections .....	-	-	759,247
Other city tax .....	551,598	-	-
Licenses and permits .....	18,544	-	-
Use of money and property .....	-	-	-
Intergovernmental .....	23,538	106,802	-
Charges for service .....	292,874	-	-
Miscellaneous .....	105,823	-	-
TOTAL RECEIPTS	<u>1,885,447</u>	<u>106,802</u>	<u>759,247</u>
DISBURSEMENTS:			
Operating:			
Public safety .....	586,031	-	-
Public works .....	329,277	103,434	-
Culture and recreation .....	161,668	-	-
Community and economic development .....	140,392	-	-
General government .....	456,414	-	-
Debt service .....	-	-	-
Capital projects .....	-	-	-
TOTAL DISBURSEMENTS	<u>1,673,782</u>	<u>103,434</u>	<u>-</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>211,665</u>	<u>3,368</u>	<u>759,247</u>
OTHER FINANCING SOURCES (USES):			
Bond proceeds .....	-	-	-
Operating transfers in (out) .....	(24,000)	-	(764,341)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(24,000)</u>	<u>-</u>	<u>(764,341)</u>
NET CHANGES IN CASH BALANCES	187,665	3,368	(5,094)
CASH BALANCES - BEGINNING OF YEAR	<u>584,465</u>	<u>48,298</u>	<u>38,163</u>
CASH BALANCES - END OF YEAR	<u>\$ 772,130</u>	<u>\$ 51,666</u>	<u>\$ 33,069</u>
CASH BASIS FUND BALANCES:			
Restricted for:			
Debt service .....	\$ -	\$ -	\$ -
Streets .....	-	51,666	-
Urban renewal purposes .....	-	-	33,069
Capital projects funds .....	-	-	-
Unassigned.....	<u>772,130</u>	<u>-</u>	<u>-</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$ 772,130</u>	<u>\$ 51,666</u>	<u>\$ 33,069</u>

See Notes to Financial Statements

<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
\$ 107,550	\$ -	\$ 1,000,620
-	-	759,247
-	-	551,598
-	-	18,544
-	12,506	12,506
-	1,443,856	1,574,196
-	-	292,874
13,775	129,520	249,118
<u>121,325</u>	<u>1,585,882</u>	<u>4,458,703</u>
-	-	586,031
-	-	432,711
-	-	161,668
-	-	140,392
-	-	456,414
4,555,150	-	4,555,150
-	4,385,391	4,385,391
<u>4,555,150</u>	<u>4,385,391</u>	<u>10,717,757</u>
<u>(4,433,825)</u>	<u>(2,799,509)</u>	<u>(6,259,054)</u>
3,515,000	1,329,029	4,844,029
884,341	24,000	120,000
<u>4,399,341</u>	<u>1,353,029</u>	<u>4,964,029</u>
(34,484)	(1,446,480)	(1,295,025)
<u>118,370</u>	<u>1,525,113</u>	<u>2,314,409</u>
<u>\$ 83,886</u>	<u>\$ 78,633</u>	<u>\$ 1,019,384</u>
\$ 83,886	\$ -	\$ 83,886
-	-	51,666
-	-	33,069
-	78,633	78,633
-	-	772,130
<u>\$ 83,886</u>	<u>\$ 78,633</u>	<u>\$ 1,019,384</u>

See Notes to Financial Statements

CITY OF ARNOLDS PARK  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

Exhibit C

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
OPERATING RECEIPTS:			
Charges for service .....	\$ 455,052	\$ 215,043	\$ 670,095
TOTAL OPERATING RECEIPTS	<u>455,052</u>	<u>215,043</u>	<u>670,095</u>
DISBURSEMENTS:			
Business-type activities .....	300,944	210,427	511,371
TOTAL OPERATING DISBURSEMENTS	<u>300,944</u>	<u>210,427</u>	<u>511,371</u>
EXCESS OF OPERATING RECEIPTS OVER OPERATING DISBURSEMENTS	154,108	4,616	158,724
OPERATING TRANSFERS OUT.....	<u>(120,000)</u>	<u>-</u>	<u>(120,000)</u>
NET CHANGES IN CASH BALANCES	34,108	4,616	38,724
CASH BALANCE - BEGINNING OF YEAR	<u>72,325</u>	<u>25,264</u>	<u>97,589</u>
CASH BALANCE - END OF YEAR	<u>\$ 106,433</u>	<u>\$ 29,880</u>	<u>\$ 136,313</u>
CASH BASIS FUND BALANCE:			
Unrestricted .....	<u>\$ 106,433</u>	<u>\$ 29,880</u>	<u>\$ 136,313</u>

See Notes to Financial Statements

## **NOTES TO FINANCIAL STATEMENTS**

CITY OF ARNOLDS PARK  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2012

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Arnolds Park is a political subdivision of the State of Iowa located in Dickinson County. It was first incorporated in 1897 and operates under the Home Rule provisions of the Constitution of Iowa and under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, public improvements, and general government services. The City also provides water and sewer utilities for its citizens.

**A. Reporting Entity**

For financial reporting purposes, the City is considered a primary government and has excluded the financial data of its component units, Central Water System and Arnolds Park/Okoboji Fire Department. A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. A component unit is a legally separate entity for which the City is financially accountable. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. Since these financial statements do not include the City's component units, they do not purport to be prepared in conformity with U.S. generally accepted accounting principles as they relate to the exclusion of the component units described below:

The City participates with the City of Okoboji in the operation of Central Water System, which is organized under Chapter 28E of the Code of Iowa and provides water system services to the two municipalities and an unrelated regional water system. The System is operated by the parties through a joint Board of Directors consisting of one member from each city council, or such other individual as that council shall designate, and a third member appointed and approved by a majority vote of the city councils of the municipalities. Water services purchased by the City from the System during the year ended June 30, 2012 totaled \$172,535, approximately 51% of total System revenues. The financial statements of this component unit are separately audited and are presented on the accrual basis of accounting. Complete financial statements of Central Water System can be obtained from their administrative offices.

The City participates with the City of Okoboji in the operation of Arnolds Park/Okoboji Fire Department, which is organized under Chapter 28E of the Code of Iowa and provides fire and rescue services to the two municipalities. The Department is operated by the parties through a joint Board of Directors consisting of one member from each city council, or such other individual as that council shall designate, and a third member appointed and approved by a majority vote of the city councils of the municipalities. The financial statements of this component unit are separately audited and are presented on the cash basis of accounting. Complete financial statements of Arnolds Park/Okoboji Fire Department can be obtained from their administrative offices.

### Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards: Upper Des Moines Opportunity Board, Dickinson County Emergency Management Commission, Dickinson County Sanitary Landfill Commission, Dickinson County Water Quality Commission, Dickinson County Assessor's Conference Board, and Dickinson County Joint E911 Service Board.

### **B. Basis of Presentation**

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

*Expendable restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and repayment of tax increment financing indebtedness.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's sanitary sewer system.

**C. Measurement Focus and Basis of Accounting**

The City of Arnolds Park maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

**D. Governmental Cash Basis Fund Balances**

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned - All amounts not included in the restricted classification.

### **E. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the public safety function.

### **F. Subsequent Events**

Management has evaluated subsequent events through the date of the auditors' report, which is the date the financial statements were available to be issued.

## **2. CASH AND POOLED INVESTMENTS**

The City's deposits in banks at June 30, 2012 were entirely covered by Federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; and certain registered open-end management investment companies.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

## **3. BONDS AND NOTES PAYABLE**

Annual debt service requirements to maturity for general obligation bonds and notes are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 809,000	\$ 335,260
2014	802,000	308,342
2015	800,000	291,470
2016	704,000	274,608
2017	743,000	257,933
2018 - 2022	4,479,000	1,037,229
2023 - 2027	2,794,037	662,030
2028 - 2032	<u>1,100,000</u>	<u>168,549</u>
Total	<u>\$12,231,037</u>	<u>\$3,335,421</u>

The Code of Iowa requires that principal and interest on general obligation bonds be paid from the Debt Service Fund.

#### **4. PENSION AND RETIREMENT BENEFITS**

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contribution to IPERS for the year ended June 30, 2012, 2011, and 2010, were \$56,824, \$53,499, and \$50,909, respectively, equal to the required contribution for the year.

#### **5. OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

Plan Description - The City operates a single-employer retiree health plan which provides medical/prescription drug benefits for employees and retirees. There are no retired members in the plan. Eligible retirees receive health care coverage through the same plans that are available for active employees. Retired participants must be age 55 or older at retirement. Benefits terminate upon attaining Medicare eligibility.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Contributions are required for retiree coverage. The retiree contributions are based on and equal to the historical full cost of active members. Retiree expenses are then offset by retiree contributions.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. Depending on plan level selected, the most recent active member monthly premiums for the City and plan members range from \$483 for single coverage to \$1,198 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2012, the city made no contributions to the retiree benefit plan.

#### **6. COMPENSATED ABSENCES**

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2012 is \$17,099, primarily relating to the General Fund. This liability has been computed based on rates of pay as of June 30, 2012.

As sick leave is not payable upon termination, retirement or death, the accumulated sick leave is not presented as part of these financial statements.

## 7. RISK MANAGEMENT

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 663 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses, and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150% of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2012 were \$36,062.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2012, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or

reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

## 8. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

<u>Transfers to</u>	<u>Transfer from</u>	<u>Amount</u>
Capital Projects	General	\$ 24,000
Total transfers to Capital Projects Fund		<u>24,000</u>
Debt Service	TIF	764,341
	Water	<u>120,000</u>
Total transfers to Debt Service Fund		<u>884,341</u>
Total		<u>\$908,341</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

## 9. RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials totaling \$1,501 during the year ended June 30, 2012.

## 10. LITIGATION

The City is party to routine legal proceedings and litigation arising in the normal course of business. In the opinion of management, the outcome of such actions will have no material impact on the City's financial condition.

## **11. COMMITMENTS AND CONTINGENCIES**

At June 30, 2012, the City has entered into construction contracts for various infrastructure projects totaling approximately \$486,087, of which approximately \$302,228 remained outstanding. The balance on the contracts will be paid as the projects progress.

The City has committed to provide funding along with the City of Okoboji to Central Water Systems for a plant expansion project. The commitment will be paid as the project progresses from the proceeds of an approximately \$5,700,000 general obligation capital loan note issued in July 2009 through the State Revolving Loan Fund and an I-Jobs Grant of \$1,450,000. At June 30, 2012, \$4,028,557 has been paid to Central Water System with advances of \$3,281,037 from the State Revolving Loan Fund.

## OTHER INFORMATION

CITY OF ARNOLDS PARK  
BUDGETARY COMPARISON SCHEDULE OF  
RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES -  
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS  
AND PROPRIETARY FUNDS  
OTHER INFORMATION (UNAUDITED)  
YEAR ENDED JUNE 30, 2012

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Less Funds not Required to be <u>Budgeted</u>
RECEIPTS:			
Property tax .....	\$ 1,000,620	\$ -	\$ -
Tax increment financing collections .....	759,247	-	-
Other city tax .....	551,598	-	-
Licenses and permits .....	18,544	-	-
Use of money and property .....	12,506	-	-
Intergovernmental .....	1,574,196	-	-
Charges for service .....	292,874	670,095	-
Special assessments.....	-	-	-
Miscellaneous .....	249,118	-	-
TOTAL RECEIPTS	<u>4,458,703</u>	<u>670,095</u>	<u>-</u>
DISBURSEMENTS:			
Public safety .....	586,031	-	-
Public works .....	432,711	-	-
Culture and recreation .....	161,668	-	-
Community and economic development .....	140,392	-	-
General government .....	456,414	-	-
Debt service .....	4,555,150	-	3,490,000
Capital projects .....	4,385,391	-	-
Business-type activities .....	-	511,371	-
TOTAL DISBURSEMENTS	<u>10,717,757</u>	<u>511,371</u>	<u>3,490,000</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	(6,259,054)	158,724	(3,490,000)
OTHER FINANCING SOURCES - NET.....	<u>4,964,029</u>	<u>(120,000)</u>	<u>3,490,000</u>
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	(1,295,025)	38,724	-
CASH BALANCES - BEGINNING OF YEAR	<u>2,314,409</u>	<u>97,589</u>	<u>-</u>
CASH BALANCES - END OF YEAR	<u>\$ 1,019,384</u>	<u>\$ 136,313</u>	<u>\$ -</u>

See Accompanying Independent Auditors' Report

<u>Total</u>	<u>Budgeted Amounts Original/Final</u>	<u>Final to Total Variance</u>
\$ 1,000,620	\$ 978,771	\$ 21,849
759,247	764,341	(5,094)
551,598	507,205	44,393
18,544	5,950	12,594
12,506	20,000	(7,494)
1,574,196	166,313	1,407,883
962,969	884,550	78,419
-	30,500	(30,500)
249,118	89,111	160,007
<u>5,128,798</u>	<u>3,446,741</u>	<u>1,682,057</u>
586,031	582,619	(3,412)
432,711	442,535	9,824
161,668	314,485	152,817
140,392	145,000	4,608
456,414	476,655	20,241
1,065,150	1,071,290	6,140
4,385,391	4,638,953	253,562
511,371	516,335	4,964
<u>7,739,128</u>	<u>8,187,872</u>	<u>448,744</u>
(2,610,330)	(4,741,131)	2,130,801
<u>1,354,029</u>	<u>3,828,000</u>	<u>(2,473,971)</u>
(1,256,301)	(913,131)	<u>\$ (343,170)</u>
<u>2,411,998</u>	<u>2,239,830</u>	
<u>\$ 1,155,697</u>	<u>\$ 1,326,699</u>	

CITY OF ARNOLDS PARK  
NOTES TO OTHER INFORMATION - BUDGETARY REPORTING  
JUNE 30, 2012

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund, and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. There were no budget amendments in 2012.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the public safety function.

## **SUPPLEMENTARY INFORMATION**

CITY OF ARNOLDS PARK  
SCHEDULE OF INDEBTEDNESS  
YEAR ENDED JUNE 30, 2012

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General Obligation Capital Notes:			
Essential corporate purpose	June 17, 2009	3.00%	\$5,774,000
General Obligation Bonds:			
Essential corporate purpose	October 1, 2005	3.75 - 4.375%	1,585,000
Essential corporate purpose	November 1, 2007	3.50 - 4.20%	2,000,000
Essential corporate purpose	January 1, 2010	4.50 - 5.25%	2,200,000
General Obligation Refunding Bonds:			
Essential corporate purpose	October 1, 2005	3.30 - 4.05%	2,930,000
Essential corporate purpose	December 1, 2010	.60 - 3.00%	1,925,000
Essential corporate purchase	March 29, 2012	1.5% - 2.1%	3,515,000

TOTAL

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 2,193,008	\$1,329,029	\$ 241,000	\$ 3,281,037	\$ 74,202	
1,585,000		1,585,000		65,949	
1,780,000		80,000	1,700,000	69,715	
2,200,000			2,200,000	103,812	
2,070,000		2,070,000		79,265	
1,685,000		150,000	1,535,000	36,207	
<u>          </u>	<u>3,515,000</u>	<u>          </u>	<u>3,515,000</u>	<u>          </u>	<u>          </u>
<u>\$11,513,008</u>	<u>\$4,844,029</u>	<u>\$4,126,000</u>	<u>\$12,231,037</u>	<u>\$429,150</u>	<u>          </u>

CITY OF ARNOLDS PARK  
BOND AND NOTE MATURITIES  
JUNE 30, 2012

General Obligation Bonds and Notes								
Essential Corporate Purpose								
Year Ending June 30,	Issued 11-1-2007		Issued 6-17-2009		Issued 1-1-2010		Issued 12-1-2010	
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount
2013	3.65%	\$ 85,000	3.00%	\$ 249,000			1.00%	\$ 90,000
2014	3.65	85,000	3.00	257,000			1.10	100,000
2015	3.70	90,000	3.00	265,000			1.30	115,000
2016	3.70	95,000	3.00	274,000			1.75	75,000
2017	3.75	100,000	3.00	283,000			1.90	100,000
2018	3.80	105,000	3.00	292,000			2.10	115,000
2019	3.85	105,000	3.00	302,000			2.35	100,000
2020	3.95	110,000	3.00	311,000			2.55	120,000
2021	4.00	115,000	3.00	322,000			2.75	420,000
2022	4.00	120,000	3.00	332,000			3.00	300,000
2023	4.00	125,000	3.00	343,000				
2024	4.00	130,000	3.00	51,037				
2025	4.10	140,000						
2026	4.15	145,000			4.50%	\$ 550,000		
2027	4.20	150,000			4.50	550,000		
2028					4.625	550,000		
2029					5.25	550,000		
TOTALS		<u>\$1,700,000</u>		<u>\$3,281,037</u>		<u>\$2,200,000</u>		<u>\$1,535,000</u>

## Schedule 2

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Issued 3-29-2012

Interest Rate	Amount	Total
1.50%	\$ 385,000	\$ 809,000
1.55	360,000	802,000
1.60	330,000	800,000
1.65	260,000	704,000
1.70	260,000	743,000
1.75	260,000	772,000
1.80	275,000	782,000
1.85	290,000	831,000
1.90	250,000	1,107,000
1.95	235,000	987,000
2.00	300,000	768,000
2.05	310,000	491,037
		140,000
		695,000
		700,000
		550,000
		<u>550,000</u>
	<u>\$3,515,000</u>	<u>\$12,231,037</u>

CITY OF ARNOLDS PARK  
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -  
ALL GOVERNMENTAL FUNDS  
FOR THE LAST TEN YEARS

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
RECEIPTS:				
Property tax .....	\$ 1,000,620	\$ 862,379	\$ 880,285	\$ 832,111
Tax increment financing collections .....	759,247	919,553	801,763	709,474
Other city tax .....	551,598	526,895	500,287	522,608
Licenses and permits .....	18,544	21,598	18,499	23,725
Use of money and property .....	12,506	18,843	5,539	55,185
Intergovernmental .....	1,574,196	608,111	579,067	230,523
Charges for service .....	292,874	293,896	287,172	289,042
Special assessments .....	-	-	273,047	-
Miscellaneous .....	249,118	543,539	160,398	180,365
	<u>\$ 4,458,703</u>	<u>\$ 3,794,814</u>	<u>\$ 3,506,057</u>	<u>\$ 2,843,033</u>
TOTAL				
DISBURSEMENTS:				
Operating:				
Public safety .....	\$ 586,031	\$ 659,414	\$ 593,702	\$ 1,176,609
Public works .....	432,711	423,369	478,818	424,422
Culture and recreation .....	161,668	144,968	147,110	139,377
Community and economic development	140,392	148,160	152,229	151,110
General government .....	456,414	480,113	454,051	379,260
Debt service .....	4,555,150	2,837,589	882,530	792,331
Capital projects .....	4,385,391	708,999	4,557,052	2,033,764
	<u>\$ 10,717,757</u>	<u>\$ 5,402,612</u>	<u>\$ 7,265,492</u>	<u>\$ 5,096,873</u>
TOTAL				

<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
\$ 725,936	\$ 690,951	\$ 561,051	\$ 533,685	\$ 515,415	\$ 494,669
657,508	587,696	609,254	636,830	574,591	581,769
478,176	395,740	328,165	355,572	327,238	325,115
19,952	17,332	12,669	14,911	7,971	5,877
160,904	246,899	174,565	38,828	37,587	83,072
305,999	790,700	1,380,240	120,886	134,136	148,153
275,552	267,713	178,327	159,328	162,807	152,629
-	59,449	56,836	59,403	62,830	71,639
71,759	129,094	221,886	507,963	294,707	394,214
<u>\$ 2,695,786</u>	<u>\$ 3,185,574</u>	<u>\$ 3,522,993</u>	<u>\$ 2,427,406</u>	<u>\$ 2,117,282</u>	<u>\$ 2,257,137</u>
\$ 572,769	\$ 541,017	\$ 475,152	\$ 592,769	\$ 528,822	\$ 368,883
376,570	409,110	356,311	346,028	334,328	368,139
131,915	135,879	126,096	100,940	137,317	97,155
129,663	99,155	84,353	101,098	116,042	96,455
412,201	367,160	357,747	337,188	309,483	318,508
680,916	829,771	864,169	552,752	530,304	1,520,028
1,659,099	1,484,140	1,944,811	950,488	1,139,304	2,373,925
<u>\$ 3,963,133</u>	<u>\$ 3,866,232</u>	<u>\$ 4,208,639</u>	<u>\$ 2,981,263</u>	<u>\$ 3,095,600</u>	<u>\$ 5,143,093</u>

CITY OF ARNOLDS PARK  
COMBINING SCHEDULE OF CASH TRANSACTIONS  
GENERAL FUND  
YEAR ENDED JUNE 30, 2012

	<u>Operating</u>	<u>Special Electric</u>	<u>Equipment Revolving</u>
RECEIPTS:			
Property tax .....	\$ 893,070	\$ -	\$ -
Other city tax .....	320,134	-	-
Licenses and permits .....	18,544	-	-
Intergovernmental .....	23,538	-	-
Charges for service .....	292,874	-	-
Miscellaneous .....	77,088	18,569	10,166
TOTAL RECEIPTS	<u>1,625,248</u>	<u>18,569</u>	<u>10,166</u>
DISBURSEMENTS:			
Operating:			
Public safety .....	568,443	-	17,588
Public works .....	313,847	-	15,430
Culture and recreation .....	161,668	-	-
Community and economic development	140,392	-	-
General government .....	456,414	-	-
TOTAL DISBURSEMENTS	<u>1,640,764</u>	<u>-</u>	<u>33,018</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	(15,516)	18,569	(22,852)
OTHER FINANCING SOURCES (USES)	<u>146,000</u>	<u>-</u>	<u>40,000</u>
NET CHANGES IN CASH BALANCES	130,484	18,569	17,148
CASH BALANCES - BEGINNING OF YEAR	<u>515,984</u>	<u>43,215</u>	<u>967</u>
CASH BALANCES - END OF YEAR	<u>\$ 646,468</u>	<u>\$ 61,784</u>	<u>\$ 18,115</u>

Local Option Sales Tax	Total
\$ -	\$ 893,070
231,464	551,598
-	18,544
-	23,538
-	292,874
-	105,823
<u>231,464</u>	<u>1,885,447</u>
-	586,031
-	329,277
-	161,668
-	140,392
-	456,414
<u>-</u>	<u>1,673,782</u>
231,464	211,665
<u>(210,000)</u>	<u>(24,000)</u>
21,464	187,665
<u>24,299</u>	<u>584,465</u>
<u>\$ 45,763</u>	<u>\$ 772,130</u>

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INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

The Honorable Mayor and  
Members of the City Council  
City of Arnolds Park  
Arnolds Park, IA 51331

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Arnolds Park, Iowa as of and for the year ended June 30, 2012, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents, and have issued our report thereon dated January 8, 2013. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

The management of the City of Arnolds Park is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Arnolds Park's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as describe in the accompanying Schedule of Findings, we identified a certain deficiency in internal control over financial reporting we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-A-12 to be a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Arnolds Park's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Arnolds Park, and other parties to whom the City of Arnolds Park may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Arnolds Park during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Winter, Starn & Co., LLP*

January 8, 2013

CITY OF ARNOLDS PARK  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2012

**Part I: Findings Related to the Financial Statements**

**Internal Control Deficiency:**

I-A-12 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits, and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation - We realize with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

Conclusion - Response accepted.

**Instances of Noncompliance:**

No matters were reported.

CITY OF ARNOLDS PARK  
SCHEDULE OF FINDINGS - Continued  
FOR THE YEAR ENDED JUNE 30, 2012

**Part II: Other Findings Related to Statutory Reporting**

- II-A-12 Certified Budget - Disbursements during the year ended June 30, 2012 exceeded the amounts budgeted in the public safety function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

- II-B-12 Questionable Disbursements - We noted no expenditures that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-12 Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

- II-D-12 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Description</u>	<u>Amount</u>
Walker Insurance Agency, owner is spouse of City Administrator	Insurance	\$ 774
Lakes News Shopper, Owned by Council Member	Newspaper publication	\$ 727

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the related party transactions do not appear to represent a conflict of interest since total transactions with each individual were less than \$1,500 during the fiscal year.

- II-E-12 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

- II-F-12 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

CITY OF ARNOLDS PARK  
SCHEDULE OF FINDINGS - Continued  
FOR THE YEAR ENDED JUNE 30, 2012

**Part II: Other Findings Related to Statutory Reporting** - Continued

II-G-12 Revenue Notes - The City had no revenue notes outstanding during the year.

II-H-12 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.